Testimony of
Amy Chasanov, Former Staff
The Advisory Council on Unemployment Compensation

Hearing Before U.S. House of Representatives,
Ways and Means Committee
Subcommittee on Income Security and Family Support

September 19, 2007

Testimony of Amy Chasanov
Former Staff to Advisory Council on Unemployment Compensation
Before U.S. House of Representatives, Ways and Means Committee
Subcommittee on Income Security and Family Support
September 19, 2007

Chairman McDermott and distinguished members of the Subcommittee, thank you for this opportunity to testify on the Unemployment Insurance Modernization Act (H.R. 2233), an important legislative proposal to encourage states to strengthen their Unemployment Insurance ("UI") systems and to reward those states who are have already incorporated the proposed improvements.

My name is Amy Chasanov, and I served as a staff member to the federal Advisory Council on Unemployment Compensation ("ACUC" or "Council") between 1993 and 1995. The Advisory Council was created under the first President Bush in November 1991, when Congress passed the Emergency Compensation Act (P.L. 102-164) in response to the 1990-1991 recession and perceived failures in the Unemployment Insurance system. The Council's congressional mandate was broad: "to evaluate the unemployment compensation program including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and other aspects of the program and to make recommendations for improvement." The bi-partisan Council was ably chaired by Dr. Janet Norwood,[1] with five members appointed by the President, three by the U.S. Senate, and three by the U.S. House of Representatives. The Council's eleven members represented a diverse group of stakeholders, including business, labor, state government, and the public.[2]

During the ACUC's two and a half year life, it had an ambitious agenda, conducting nine nationwide public hearings, holding focus groups, visiting many state unemployment compensation offices, commissioning significant research, and convening two research conferences and one legal symposium. The Advisory Council met on 13 separate occasions to discuss the research, deliberate, and reach a consensus on findings and recommendations that its members could endorse. In its three annual reports – dated February of 1994, 1995, and 1996 – the Advisory Council published its findings and issued 50 recommendations on how to improve the Unemployment Insurance system.[3] My testimony today focuses on the research, findings, and recommendations made by the Advisory Council in those reports, particularly as they relate to the House's UI Modernization Act.

---

[1] Executive Director Laurie Bassi played an indispensable role in the Council's work.

[2] Attachment 1 provides a list of the members of the Advisory Council on Unemployment Compensation.

[3] Advisory Council on Unemployment Compensation, "Report and Recommendations," February 1994 ("1994 ACUC Report"); Advisory Council on Unemployment Compensation, "Unemployment Insurance in the United States: Benefits, Financing, Coverage," February 1995 ("1995 ACUC Report"); Advisory Council on Unemployment Compensation, "Defining Federal and State Roles in Unemployment Insurance," January 1996 ("1996 ACUC Report").

As the Council noted, the UI system "serves as the foundation of economic security for millions of workers who are temporarily laid off or permanently lose their jobs."[4] However, the labor market has undergone significant change since the UI program was created in 1935. When the program was created, married full-time male workers were the primary breadwinners and the majority of the work force. That is no longer true—women, contingent workers, part-time workers, temporary workers, single heads of households, and single individuals make up the majority of the work force. The ACUC focused much of its research and recommendations on how to change eligibility conditions to bring the UI system into the twenty-first century.[5]

Like the pending bill, many of the Council's recommendations focused on the need for the UI program to reflect the significant changes in the workforce since the inception of the UI program in 1935—namely, the increase in part-time, temporary, contingent, and women workers, and the increasing ranks of the long-term unemployed. Research by GAO has shown that low-wage workers are two times as likely to be unemployed as higher-wage workers, but half as likely to collect UI benefits.[6] Part-time workers who meet the monetary eligibility requirements are also much less likely to receive UI benefits than their full-time counterparts. Because many states' UI programs have failed to keep pace with changes in the workforce over the past 70 years, there has been an overall decline in the percent of unemployed workers who actually receive UI benefits.[7]

The Council's findings and recommendations directly or indirectly support all the features of the House's UI Modernization Act. The Council recommended all states adopt an "alternative base period," and that workers not be excluded from receiving benefits solely because they seek part-time work. In addition, the Council voiced its concern over specific nonmonetary eligibility requirements that preclude a worker from receiving benefits when he or she voluntarily separates from employment for compelling personal or family reasons. The UI Modernization Act addresses each of these barriers to receiving unemployment compensation. The Council recommended that Federal Unemployment Tax Act ("FUTA") revenues that fund program administration not decline, but actually increase over time. The Council also supported "extending" benefits an additional 26 weeks for individual workers who were enrolled in education and training programs that would enhance their re-employment prospects. Finally, the Advisory Council made direct recommendations on two additional reforms that could be considered for inclusion in Section 3's options: (i) enacting an hours-based "base period" requirement for monetary eligibility that would help more low wage workers qualify for benefits, and (ii) ensuring that the UI weekly benefit amount paid to a significant portion of UI recipients is 50 percent of their lost wages by linking a state's maximum weekly benefit amount to its average weekly wage.

This bill provides the House of Representatives with an opportunity to address many of the problems in states' UI programs that render it inaccessible or inadequate for unemployed

---

[4] 1994 ACUC Report at 3.

[5] 1994 ACUC Report at 5.

[6] Government Accountability Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers Is Limited* (GAO-01-181), December 2000, at 13-15.

[7] There was a gradual decline from the 1950s to the 1980s, and a modest gain since then.

workers. The bill rewards those states that have already strengthened their UI programs, and provides incentives to other states to modernize their programs to reflect today's workforce. I am pleased to see the bill include many of the issues that were so important to the ACUC's members.

I. THE ACUC'S OVERARCHING THEMES.

A. The Purpose of the Unemployment Insurance System.

Before addressing the specific recommendations of the Council in more detail, it is important to take a step back and consider the overall purpose of the UI system. Agreement on a statement of purpose for the Unemployment Insurance system was an important task for the Council members early in their process. The Council's statement of purpose guided its subsequent research, findings, and recommendations. In 1995, the Council members agreed upon the following statement of purpose:

> ***The most important objective of the U.S. system of Unemployment Insurance is the provision of temporary, partial wage replacement as a matter of right to involuntarily unemployed individuals who have demonstrated a prior attachment to the labor force. This support should help to meet the necessary expenses of these workers as they search for employment that takes advantage of their skills and experience. Their search for productive reemployment should be facilitated by close cooperation among the Unemployment Insurance system and employment, training, and education services. In addition, the system should accumulate adequate funds during periods of economic health in order to promote stability by maintaining consumer purchasing power during economic downturns.***[8]

B. The Purpose of the Federal-State Relationship.

The Council considered the unique federal-state nature of the UI program to determine the appropriate division of federal and state program responsibilities.[9] The Council identified two essentially "national" interests: insurance and wage replacement, and economic stabilization.[10] The Council found that in order for the UI system to serve these two essentially national interests, the federal government must dictate some specific components that each state must incorporate into its UI program. After careful study of the appropriate federal-state roles in the UI program, in its 1996 Report, the Council adopted the following statement regarding federal-state responsibilities in Unemployment Insurance:

---

[8] 1995 ACUC Report at 8 ("Statement of Purpose").

[9] 1996 ACUC Report at 23-36.

[10] 1996 ACUC Report at 27-28.

> ***Unemployment Insurance is a federal-state system of shared responsibilities and powers. . . . The federal government should assume responsibility primarily in those areas in which both an essential national interest exists and states' interests may diverge from those national interests.***
>
> ***The fundamental objective of the system is the provision of insurance in the form of temporary, partial wage replacement to workers experiencing involuntary unemployment. Federal involvement in this area should limit that competition among states on the basis of Unemployment Insurance costs that undermines the integrity of the system and the capacity of the program to insure workers adequately. A second objective of the system is the accumulation of adequate funds during periods of economic health, thereby promoting economic stability by maintaining consumer purchasing power during economic downturns. The achievement of these fundamental purposes, which serve the national interest and transcend the interests of any individual state, require federal oversight and action.***[11]

States take the lead for financing the programs and administering its benefits; the federal government creates minimum standards for the states, allocates funding, and provides loans to insolvent states. States frequently compete with one another to attract and retain employers, and the UI program is just one of the many variables on which states compete. At times, this interstate competition has put pressure on states to reduce their UI taxes, tighten UI eligibility requirements, or decrease the benefits available to qualified workers.[12] By creating minimum eligibility, benefits, and financing standards, the federal government helps moderate a "race to the bottom" between the states from being played out in the UI program. Given this background, ACUC members found that "the federal government should act to prevent any potentially destructive consequences arising from interstate competition," by involving itself in "***minimum eligibility and benefit levels***."[13] The Council found that although the federal government does not currently "***protect benefits and eligibility levels,***" it should do so.[14]

To this end, the Council recommended a series of new federally-mandated "minimum standards" to reflect changes in the workforce and to insulate states enacting positive changes in their UI program from competition with states who were weakening their UI programs. The concept of such minimum standards is reflected in the UI Modernization Act before this Committee. The Council proposed using the stick method to strengthen the UI systems —creating and/or revising existing minimum standards that the states ***must*** adopt in order for their programs to be "federally-approved." Instead, the UI Modernization Act proposes using a carrot—providing

---

[11] 1996 ACUC Report at 7-8 ("Federal-State Responsibilities in Unemployment Insurance").

[12] 1995 ACUC Report at 3, 4.

[13] 1996 ACUC Report at 8.

[14] 1996 ACUC Report at 34-35. This federal responsibility was identified by Franklin D. Roosevelt's Committee on Economic Security that worked to establish the program in 1935. *Id.* at 27, 36 n.10.

financial incentives in the form of additional administrative funding to states that have already enacted the enumerated reforms or pass new legislation to do so. In the end, the approach is less important than the outcome—it is imperative that the federal government take action to protect benefits and eligibility levels.[15]

II. THE ACUC ENDORSED MANY OF THE PROVISIONS OF H.R. 2233.

Based on its statement of purpose, the Council's findings and recommendations focus on three primary areas: eligibility for benefits, adequacy of benefits (in terms of amount and duration), and the forward-funding of the system to ensure UI provides macroeconomic stabilization.[16] The Council's findings and recommendations directly or indirectly support all the features of the House's UI Modernization Act. First, the Council recommended all states adopt an "alternative base period," that considers their most recently completed calendar of work when determining monetary eligibility. Second, the Council recommended that workers not be excluded from receiving benefits solely because they seek part-time work. Third, the Council voiced its concern over specific nonmonetary eligibility requirements that preclude a worker from receiving benefits when he or she voluntarily separates for compelling personal or family reasons. Fourth, the Council believed FUTA revenues should increase, not decrease, therefore the surtax should not be allowed to expire without a concomitant raise in the federal taxable wage base. Finally, the Council supported "extending" benefits an additional 26 weeks for workers enrolled in training or education programs.

A. The ACUC Recommended That All States Adopt An Alternative Base Period.

All states require that a worker earn a specified amount of wages and/or work in a defined "base period" in order to qualify for benefits. The base period is the relevant time period for which an individual's earnings and employment are measured to determine monetary eligibility for UI benefits, as well as the length of time qualified workers are eligible to receive UI benefits.[17] The majority of states still define their base period as the first four of the most recently-completed five calendar quarters. Under this base period definition, an unemployed worker applying for benefits today, September 19, 2007, would have their eligibility and benefit amount calculated based on wages earned between April 1, 2006 and March 31, 2007, ignoring almost six full months of earnings.

The ACUC was very concerned that some workers did not quality for UI benefits because their state's calculation of benefit eligibility ignored between three and six months of the workers' most recent work experience from eligibility consideration.[18] The Council found that disregarding recent earnings was most likely to harm low-wage workers with a substantial labor force attachment, and workers in temporary or part-time jobs (all of which are disproportionately

---

[15] 1996 ACUC Report at 34-35.

[16] 1995 ACUC Report at 7-9.

[17] 1995 ACUC Report at 92-93.

[18] 1995 ACUC Report at 16-17.

likely to be women).[19] In 1994, only seven states had some form of a "moveable" or "alternative" base period.[20] Given advances in technology, the ACUC believed that, at that time, it was feasible for ***all*** states to adopt an "alternative base period" under which a UI claimant could be eligible for benefits on the basis of the four most recently-completed quarters of work.[21] The Council adopted the following recommendation:

> ***All states should use a moveable base period in cases in which its use would qualify an Unemployment Insurance claimant to meet the state's monetary eligibility requirements. When a claimant fails to meet the monetary eligibility requirement for Unemployment Insurance, the state should inform the individual in writing of what additional earnings would be needed to qualify for benefits, as well as the date when the individual should reapply for benefits.***[22]

The good news is that the number of states with a moveable base period has almost tripled since the Council's 1995 Report. Currently, 18 states and the District of Columbia have adopted an alternative base period.[23] The bad news is that workers in more than half the states still have three to six months of their most recent earnings disregarded when monetary eligibility is calculated. The UI Modernization Act's 33% incentive payment for the adoption of an alternative base period, and its insistence on the adoption of an alternative base period before qualifying for the remaining 67% incentive payment, is entirely consistent with the importance the ACUC placed on this aspect of the UI program.[24]

B. The ACUC Recommended That Individuals Seeking Part-Time Work Be Eligible for UI.

Each state adopts nonmonetary eligibility requirements in addition to the monetary requirements necessary to qualify for UI benefits. These nonmonetary eligibility requirements include (i) separation requirements that ensure UI claimants are either involuntarily unemployed or

---

[19] 1995 ACUC Report at 16.

[20] 1995 ACUC Report at 99 n.6.

[21] 1995 ACUC Report at 16.

[22] 1995 ACUC Report at 17 (Recommendation #17). The Council further opined that the cost of such a change would not be prohibitive given that many of these claimants would be eligible eventually (i.e., once an additional quarter of earnings become available), and that increases in UI benefit payments were likely to be offset by a reduction in other state-provided benefits (e.g., TANF and Food Stamps).

[23] U.S. Department of Labor, 2007 Comparison of State Unemployment Insurance Laws, Table 3-2 at p. 3-2, available at http://www.workforcesecurity.doleta.gov/unemploy/uilawcompar/2007/comparison2007.asp. Effective January 1, 2008, Illinois will have an ABP. See http://www.ows.doleta.gov/unemploy/content/strpt03-4.asp. States with ABP laws that have sunset provisions or depend upon trust fund levels would not qualify for the incentive payments.

[24] 1995 ACUC Report at 16-17, 93.

voluntarily left their job for good cause, and (ii) continuing eligibility requirements that ensure UI recipients are able and available for and actively seeking work.

Because state UI statutes do not always spell out their nonmonetary eligibility requirements, this information is often difficult to ascertain. The Council relied upon an Interstate Conference of Employment Security Agencies ("ICESA")[25] survey of UI directors taken in the fall of 1994 regarding the "expected agency result" in a number of different situations.[26] According to the ICESA survey, in general, individuals would be ineligible for benefits in 39 states if they are seeking only part-time work. This is a continuing eligibility requirement—if that individual later becomes available for full-time work, she may receive benefits.[27] The ICESA survey also found that only a handful of states would consider an individual seeking part-time work eligible for benefits if he or she had (i) a prior part-time work history (14 states), (ii) a compelling personal reason for seeking only part-time work (3 states), or (iii) a compelling family reason for seeking only part-time work (2 states).[28] Thus, in many states, nonmonetary eligibility requirements mandate that an individual who meets the monetary eligibility requirements but is seeking part-time work, would nonetheless be disqualified from receiving benefits. The Council acknowledged the changing nature of the workforce, the increasing participation of women, and the significant increase in part-time work. The Council recommended:

> ***Workers who meet a state's monetary eligibility requirements should not be precluded from receiving Unemployment Insurance benefits merely because they are seeking part-time, rather than full-time employment.***[29]

Unlike the UI Modernization Act, the Council did not qualify its recommendation with a state option to allow only individuals who have worked part-time in the majority of their base period to seek part-time work.[30] In the ICESA survey and the Counsel's 1995 Report, the Council evidenced its particular interest in a number of reasons why a worker with a prior full-time position might seek part-time work (e.g., compelling personal circumstances, family circumstances, medical condition).

C. The ACUC Found That Workers Who Voluntarily Leave Their Job For Compelling Personal or Family Reasons Should Receive UI.

Workers often are not able to receive UI benefits if they "voluntarily leave without good cause." In general, the Council found that states have become more restrictive in their definition of

---

[25] This organization is now entitled the National Association of State Workforce Agencies (NASWA).

[26] 1995 ACUC Report at 101.

[27] 1995 ACUC Report at 103.

[28] 1995 ACUC Report at 104, 105 (Table 8-1). *See also* 1995 ACUC Report at 120 (presenting results of National Employment Law Project's 1994 legal analysis).

[29] 1995 ACUC Report at 18 (Recommendation #20), 91.

[30] H.R. 2233 Section 3(A) ("except that the State law provisions carrying out this subparagraph may exclude an individual if a majority of the weeks of work in such individual's base period do not include part-time work").

"good cause," limiting it only to reasons attributable to employment, not the worker's personal circumstances.[31] States define "good cause" in a variety of ways. The ICESA survey considered a number of situations that would disqualify individuals from receiving benefits related to their separation from employment. In most states, the individual would be disqualified from receiving benefits for the entire duration of their unemployment spell.[32] Moreover, states have increasingly denied UI benefits for the duration of unemployment, as opposed to a shorter period of time.[33] In 1995, the Council's findings expressed their concerns about "a number of specific nonmonetary eligibility conditions," and indicated its intent to address the following in its 1996 Report:

> ***The Council is particularly concerned about a number of specific nonmonetary eligibility conditions. For example, it is not always clear whether an individual who is unavailable for shift work (perhaps due to a lack of public transportation or child care) will be found to be eligible for Unemployment Insurance. Consideration needs to be given to situations in which individuals quit their jobs because of one of the following circumstances: a change in their employment situation (e.g., change in hours of work), sexual or other discriminatory harassment, domestic violence, or compelling personal reasons, including family responsibilities. In addition, the Council is concerned about the variability in the definition of misconduct across states, and about the treatment of individuals who refuse employment because it is temporary or commission work.***[34]

While the Council members remained very interested in these nonmonetary eligibility issues, they ultimately did not reach any specific recommendations in their 1996 Report, with other issues taking up much of their time.

D. The ACUC Recommended That FUTA Revenues Per Worker Increase, Not Decrease, Over Time.

The Federal Unemployment Tax Act ("FUTA") assesses a gross tax of 6.2 percent on the first $7,000 of an employee's wages; however, the federal government offers a 5.4 percent credit on the 6.2 percent tax to employers with approved UI plans and no outstanding federal loans. As a result, the potential net tax rate is 0.8 percent, which includes a 0.2 percent "temporary" surtax representing 25 percent of the effective tax rate in most states. These FUTA taxes are used to finance (i) state and federal administrative costs, (ii) the Extended Unemployment Compensation Account, which pays 50 percent of Extended Benefit payments, and (iii) the Federal Unemployment Account that provides loans to insolvent states.[35]

---

[31] 1995 ACUC Report at 110.

[32] 1995 ACUC Report at 106, 107-09 (Table 8-2).

[33] 1995 ACUC Report at 110, 111 (Table 8-3).

[34] 1995 ACUC Report at 19.

[35] *See* 1994 ACUC Report at 84; 1996 ACUC Report at 66-68.

The 0.2 percent surtax has been in place for 30 years: it went into effect in 1977, and has been has been extended in 1987, 1990, 1993, and 1997. The surtax is currently set to expire on December 31, 2007. Both Democratic and Republican majorities in Congress have extended the surtax, though often for what the Council concluded to be the wrong reasons (i.e., to use the surtax revenues to offset other spending or federal budget deficits).[36] The Bush Administration has proposed extending the surtax, although my understanding is that it does not intend to reinvest surtax revenues in the UI system but instead uses the money to offset other federal spending.

The Council noted that pressures of interstate competition also play out in the arena of administrative funding, and found "***[i]t is imperative that the federal government exercise leadership to ameliorate these pressures.***"[37] The Council was concerned that adequate FUTA payroll tax revenues are made available to state agencies, and the appropriations of this administrative funding not be limited by budgetary factors external to the UI system.[38]

The Council members were troubled by the erosion of the minimum taxable wage base, which has been set at $7,000 since 1983.[39] The Council noted that the inflation-adjusted per worker cost to employers of FUTA taxes is at an all-time low in 1994,[40] and it has only gotten worse since then. The value of the UI administrative dollars to the states and federal governments has eroded over the last 24 years, allowing them to provide less and less over time. The Council's research led it to believe that, in 1995, the federal minimum taxable wage base was long overdue for an increase, and not just because the wage base had been stagnant for over a decade. The Council's research found that states with higher taxable wage bases had higher UI trust fund reserves and were better prepared to deal with future economic downturns. In addition, low federal and state taxable wage bases impose an unfair and regressive UI payroll tax burden that

---

[36] 1996 ACUC Report at 80. The Council emphasized that "the Unemployment Insurance system was intended as a self-contained system of social insurance." 1995 ACUC Report at 11. As a result, the Council found that funds should be held in trust solely for the payment of benefits for eligible unemployed workers and for the costs of administering the UI system. 1995 ACUC Report at 11. The Council believed that including FUTA accounts and the states' UI trust fund accounts within the unified federal budget system undermined the integrity of the system. Moreover, when UI trust fund balances are used to balance the federal budget, the system loses its countercyclical capacity, making it difficult for states to automatically spend the trust funds during recessions. Although the Council acknowledged economic and political realities were a significant bar, it nonetheless recommended: "***All Unemployment Insurance trust funds should be removed from the unified federal budget.***" 1995 ACUC Report at 12 (Recommendation #7).

[37] 1996 ACUC Report at 17.

[38] 1996 ACUC Report at 17.

[39] In 1939, FUTA taxes applied to 100 percent of payroll; in 1940, that was changed to the first $3,000 of earnings (which covered 93 percent of all wages at the time); in 1972, the federal taxable wage base was increased to $4,200; in 1978, it was increased to $6,000; and in 1983, it was increased to $7,000, where it has remained since then. 1994 ACUC Report at 107.

[40] 1996 ACUC Report at 74-75.

disproportionately affects low-wage workers, who are also the least likely to be eligible for UI benefits.[41]

Given all these findings, the Council favored an increase in the federal taxable wage base to force states to increase their own state taxable wage bases. Acknowledging the political difficulties of this change alone,[42] the Council proposed a ***revenue-neutral*** adjustment that would increase the federal (and many states') taxable wage bases but not create additional revenue for the federal UI trust funds:

> ***The federal taxable wage base should be raised to $9,000, with an accompanying elimination of the two-tenths percentage point FUTA surcharge. The federal taxable wage base should be adjusted annually by the Employer Cost Index.***[43]

The Council recommended a long-overdue $2,000 increase in the federal taxable wage base (to $9,000), which would force many states to increase their taxable wage bases and alleviate some of the burden on the lowest paid workers. At the same time, the Council recommended a concomitant elimination of the two-tenths percentage point FUTA surcharge, which would have resulted in a small net $2 decrease in the annual maximum FUTA tax per employee (from $56 to $54). The Council also recommended an annual indexation of the federal taxable wage base to keep up with wage inflation and improve the ability of states to forward-fund the system, accumulating reserves during times of prosperity.

Thus, even though the Council recommended the elimination of the surtax, it only did so in the context of a revenue-neutral increase in the federal taxable wage base. I do not believe the Council would have ever allowed the FUTA surtax to expire without suggesting a concomitant increase in the federal taxable wage base. Importantly, the Council's approach is more ***effective*** than that in the UI Modernization Act—because it also helps alleviate the burden on lower wage workers and improves the solvency of many state programs.

E. The ACUC Recommended Extending Benefits For Long-Term Unemployed Workers In A Training Program.

The Council's genesis was based on the failure of the Extended Benefits program to trigger on in the recession immediately preceding the Council's establishment. As a result, the Council saw an immediate need to reform that program and focused much of its first report and

---

[41] 1996 ACUC Report at 11, 74. Economic research indicates that employers are likely to pass on these taxes to their workers, often in the form of lower wages. *Id.* at 74.

[42] The Council noted that states and employers would be unlikely to agree to increases in the federal taxable wage base without assurances that any increased FUTA revenue collections would be used for the UI system. 1996 ACUC Report at 80.

[43] 1995 ACUC Report at 19. Note that this was one of a small number of recommendations that was not unanimously adopted by all Council members.

recommendations on the Extended Benefits program.[44] In 1994, the Council found that the length of time individuals are unemployed had increased over time and that laid-off workers were less likely to return to their previous jobs.[45] In light of increased globalization and outsourcing, that finding is even more valid today than it was then. The Council believed that, given increased long-term unemployment, the Extended Benefits program needed to be expanded to deal with the changes in the duration of unemployment. To this end, the Council recommended:

> ***The scope of the Extended Benefits program should be expanded to enhance the capacity of the Unemployment Insurance system to provide assistance for long-term unemployed workers as well as short-term unemployed workers. Those individuals who are long-term unemployed should be eligible for extended Unemployment Insurance benefits, provided they are participating in job search activities or in education and training activities, where available and suitable, that enhance their re-employment prospects. To maintain the integrity of the Unemployment Insurance income support system, a separate funding source should be used to finance job search and education and training activities for long-term unemployed workers.***[46]

III. THE ACUC ENDORSED TWO OTHER RECOMMENDATIONS THAT COULD BE INCLUDED AS SECTION 3 INCENTIVES.

A. The ACUC Recommended Hours-Based Eligibility Requirements To Help More Low-Wage Workers Qualify For Benefits.

The Council found that a fundamental purpose of the UI system is to provide temporary, partial wage replacement to involuntarily unemployed individuals with a prior attachment to the labor force.[47] The vast majority of states base their monetary eligibility requirements on wages earned instead of hours worked. The Council was concerned that low-wage workers must work many more hours than their higher-paid counterparts in order to qualify for benefits. This disparity requires low-wage workers to have a more substantial labor force attachment than higher-wage workers. In other words, individuals are often rendered ineligible for benefits based on their wage rate, not the number of hours worked or weeks worked (i.e., labor force attachment). The Council felt it was unfair and contrary to the purpose of the UI system for lower paid workers to be required to work more hours to qualify for benefits than higher wage workers. As a result, the Council recommended that all states change their eligibility requirements to be based on the number of hours worked, not wages earned:

---

[44] 1994 ACUC Report at 4. In 1994, the Council "strongly urge[d] timely Congressional consideration of its recommendations, because it believes that the county needs a functioning Extended Benefits program." 1994 ACUC Report at 4-5.

[45] 1994 ACUC Report at 7.

[46] 1994 ACUC Report at 8 (Recommendation #1).

[47] 1995 ACUC Report at 8.

Each state should set its laws so that its base period earnings requirements do not exceed 800 times the state's minimum hourly wage, and so that its high quarter earnings requirements do not exceed one-quarter of that amount.[48]

B. The ACUC Recommended A Fifty Percent Replacement Rate Goal.

None of the reform options in Section 3 of the bill address problems with the inadequacy of benefit payments for those workers who qualify for benefits. The Council believed that one important purpose of UI was to "***help to meet the necessary expenses of these workers as they search for employment that takes advantage of their skills and experience.***"[49] The Council's definition of "benefit adequacy" included (i) the proportion of prior base period weekly wages that UI weekly benefits replaced ("replacement rate"), and (ii) the portion of UI recipients to which the adequacy standard should apply.[50]

Throughout the history of the Unemployment Insurance program, Presidents and program scholars have endorsed a goal of replacing 50 percent of the lost earnings.[51] As a result, in most states, weekly benefit amounts are set at one-half of previous wages, up to a given level.[52] The Council also endorsed such a goal, but was concerned about the portion of recipients who actually had 50 percent of their earnings replaced with UI. In states with relatively low maximum benefit amounts (when compared to their state average weekly wages), a larger number of workers qualify for the maximum benefit amount, and therefore many workers have a lower percentage of their wages replaced.[53] The Council believed the UI system should replace 50 percent of lost earnings for 80 percent of all UI recipients.[54] Consistent with its adopted purpose of the UI system to "help to meet the necessary expenses of these workers as they search for employment,"[55] the Council recommended:

---

[48] 1995 ACUC Report at 18 (Recommendation #18). At the time, the ACUC estimated that such a change would increase the number of individuals eligible for benefits by approximately 5.3 % and the amount of benefits by 3.6%. 1995 ACUC Report at 17-18, 92. *See also* 1996 ACUC Report at 9 (Recommendation #2: "***To preserve national interests in the UI system, the federal government should take an active role . . . assuring that all workers with a given level of attachment to the work force are eligible for a minimum level of benefits.***").

[49] 1995 ACUC Report at 8 ("Statement of Purpose").

[50] 1995 ACUC Report at 126.

[51] 1995 ACUC Report at 20. *See also* 1996 ACUC Report at 53.

[52] 1995 ACUC Report at 127.

[53] The Council acknowledged the important interaction between a state's maximum weekly benefit amount and the proportion of UI recipients whose benefits replace 50 percent of their lost wages. 1995 ACUC Report at 20.

[54] 1995 ACUC Report at 20.

[55] 1995 ACUC Report at 8.

> ***For eligible workers, each state should replace at least 50 percent of lost earnings over a six-month period, with a maximum weekly benefit amount equal to two-thirds of the state's average weekly wages.***[56]

My understanding is that the pending Senate bill, S.1871 (Section 3(D)), includes a similar feature as one of the incentives that will qualify a state for receiving administrative incentive payments.[57] I believe the Council would have endorsed such a provision.

* * *

Mr. Chairman, thank you again for your interest and commitment to improving Unemployment Insurance.

---

[56] 1995 ACUC Report at 20 (Recommendation #22). *See also id.* (noting one Council member objected to this recommendation).

[57] Section 3(D) of Senate Bill 1871 includes one reform eligible for incentive payments for states where "The maximum amount of compensation – (i) payable to the individual during a benefit year is equal to at least 26 times the individual's weekly benefit amount; or (ii) the individual receives during a benefit year exceeds half of the individual's total wages during the base period," provided the state does not reduce its maximum weekly benefit amount after the enactment of this subsection.

Attachment 1

Advisory Council on Unemployment Compensation
(affiliation during member's tenure on the Council is also denoted)

Janet L. Norwood, *Chair*
Senior Fellow, The Urban Institute

Owen Bieber
President Emeritus, International Union, UAW

Thomas R. Donahue
President Emeritus, AFL-CIO

Ann Q. Duncan
Chair, Employment Security Commission of North Carolina

William D. Grossenbacher
Administrator, Texas Employment commission

Leon Lynch
International Vice-President, United Steelworkers of America

Robert C. Mitchell
Retired Manager, Payroll Taxes, Sears, Roebuck & Co.

Gary W. Rodrigues
President, Hawaii State AFL-CIO

John J. Stephens
Retired President and CEO, Roseburg Forest Products

Tommy G. Thompson
Governor, State of Wisconsin

Lucy A. Williams
Associate Professor of Law, Northeastern University

*Five members were appointed by the President, three from the U.S. Senate, and three from the U.S. House of Representatives.